

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 IO-14 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 2080

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E.O. 11652: N/A

TAGS: EFIN, BL

SUBJ: IMF MISSION.

1. ACCORDING TO IMF REP, IMF MISSION WHICH SCHEDULED TO COME TO LA PAZ FEBRUARY 4 NOW IN DOUBT. MAIN BASIS FOR DOUBT, HE SAID, IS THAT PROSPECTIVE 1974 BUDGET DEFICIT NOW LARGER THAN LIKELY TO BE ACCEPTED BY IMF AND THAT IMF WOULD NOT WISH ENDORSE USE OF PROSPECTIVE YPFB PROFITS TO COVER CENTRAL GOVERNMENT DEFICIT. IMF/WASHINGTON APPARENTLY IS NOW TRYING TO EXTRACT MAXIMUM MOVEMENT OGB TO CLOSING PROSPECTIVE FISCAL DEFICIT BEFORE AGREEING TO SEND MISSION TO LA PAZ AND MINFIN IS RECONSIDERING WHETHER HE REALLY WANTS MISSION IF PORSPECTS NOT GOOD FOR REACHING STAND-BY AGREEMENT.

2. WHILE WE ARE NOT TAKING A POSITION ONE WAY OR THE OTHER WITH THE GOB, WE HAVE CONSULTED WITHIN OUR MISSION ABOUT THE ADVISABILITY OF A FUND MISSION AT THE PRESENT TIME. WE SEE PROS AND CONS ON MISSION COMING AS SCHEDULED AS DOES IMF REP. PROS INCLUDE POTENTIAL USEFULNESS OF MISSION AT TIME WHEN GOB POLICIES FOR PRESENT YEAR BEING DEBATED, UTILITY TO GOB OF IMF ENDORSEMENT LONGER TERM PROSPECTS
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AND POLICIES, AND POTENTIAL DAMAGE TO BUSINESS CONFIDENCE

AND POSSIBLE DELAY OF CIAP MEETING AND COORDINATION OF FURTHER ASSISTANCE IF IMF DOES NOT COME AS SCHEDULED. MAJOR CONS INCLUDE POSSIBLE ADVERSE PUBLIC REACTION TO IMF MISSION WHICH MAY BE CHARGED WITH CONTRIBUTING OR ADDING TO RECENT UNPOPULAR PRICE INCREASES AND POSSIBLE FAILURE REACH AGREEMENT ON STAND-BY AT THIS TIME. ON BALANCE, WE FAVOR MISSION'S ARRIVAL AS SCHEDULED BASICALLY BECAUSE IT WOULD PROVIDE BEST MECHANISM FOR MACRO-ECONOMIC DIALOGUE WITH THE GOB AT THIS CRITICAL TIME.

3. WE LOOK FORWARD TO CONSULTING WITH IMF MISSION BUT PROPOSE ARA/LA HAVE INFORMAL DISCUSSION WITH FUND WHETHER MISSION COMES OR NOT. WE SUGGEST YOU MIGHT WISH TO EXPLORE FOLLOWING: A) FUND'S VIEWS ON FISCAL PROSPECTS AND POLICY MIX TO DEAL WITH INFLATIONARY PRESSURES ARISING FROM RISING WORLD PRICES; B) FUND'S ANALYSIS OF LARGE INCREASES BY GOB IN FOOD PRICES AND WAGE LEVELS; C) MINFIN DESIRE CREATE TRUE INVESTMENT BUDGET FOR PUBLIC SECTOR; AND D) FISCAL IMPLICATIONS OF 1974 PUBLIC AND PRIVATE INVESTMENTS WHICH TOGETHER WE BELIEVE WOULD HAVE TO EXCEED 15 PERCENT OF GDP TO ASSURE CONTINUATION OF CURRENT GROWTH RATES.

4. FYI. WE HAVE VIEW SIMILAR TO THAT OF IMF REP THAT WOULD BE UNDESIRABLE FOR GOB SOLVE PROSPECTIVE UNFINANCED FISCAL DEFICIT, WHICH IMF REP PUT AT \$B 600 MILLION, ONLY FROM YPFB GAINS, UNLESS SUCH FINANCING STRICTLY LIMITED TO TRUE INVESTMENT EXPENDITURES. WE DID NOT HAVE CAREFUL AND DETAILED DISCUSSION WITH IMF REP ON THIS ESTIMATE. WE SEE EXTREMELY WIDE RANGE OF POSSIBILITIES FOR FISCAL PERFORMANCE IN 1974 DUE TO GREAT VARIABILITY OF NUMBER OF FACTORS WHICH COULD PRODUCE ANYTHING FROM ABOUT \$B 600 MILLION SURPLUS, IF FULL COMIBOL TAX PAYMENTS MADE, TO \$B 600 MILLION UNFINANCED DEFICIT. THUS WE BELIEVE USG SHOULD NOT TAKE ANY POSITION AT THIS TIME WITH GOB ON SPECIFIC WAY TO CLOSE PROSPECTIVE 1974 DEFICIT, BUT RATHER WORK OUT POSITION MANILY WITH OTHER AGENCIES IN COURSE PREPARATION FOR CIAP MEETING. WE SHOULD PLAN PROVIDE OUR RECOMMENDATIONS IN THAT CONTEXT. WE ALSO AGREE WITH IMF REP THAT BEST POSSIBILITIES FOR INCREASES ON REVENUE SIDE ARE THROUGH BETTER TAX ADMINISTRATION, INSTITUTION AGRICULTURE LAND TAX AND ENFORCEMENT EXISTING LIMITED OFFICIAL USE

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LEVEL EXPORT TAXES. SUCH ACTIONS IF INSTITUTED PROMPTLY COULD GENERATE SIGNIFICANT ADDITIONAL REVENUE IN 1974 AND FUTURE YEARS. WE BELIEVE WE CAN PROPERLY FOLLOW-UP ON TAX ADMINISTRATION AND ARE DOING SO, SINCE THIS IS AREA IN WHICH WE ARE FURNISHING TECHNICAL ASSISTANCE. WE LEANING TOWARDS CONCLUSION THAT MINERAL REGALIA TAX ON TIN SHOULD BE REVISED TO REDUCE IMPACT AS CIF PRICE MOVES UP, BUT THIS AS WELL AS INSTITUTION NEW TAXES AND ENDORCEMENT EXPORT TAXES

IS MATTER BEST LEFT TO IMF OR COLLECTIVELY TO CIAP TO RAISE
WITH GOB.

4. RECOMMEND ARA/LA REPRESENTATIVES DISCUSS SITUATION WITH
IMF, BUT ON BASIS OF SOLICITING FUNFS'S CURRENT POSITION ON
THESE TOPICS. SINCE OUR POSITIONS ARE NOT FIXED BECAUSE
OF FLUID SITUATION HERE AND CHANCES OF VARIATIONS AND WORLD
MARKETS, WE ARE NOT ADVANCING ANY POLICY SUGGESTIONS FOR
DISCUSSION WITH IMF. WE WISH TO BE INFORMED OF FUND'S
VIEWS SO THAT WE MIGHT KNOW WHETHER THEIR INFORMATION
SUFFICIENTLY CURRENT AND POSITION APPROPRIATELY TAKES
ACCOUNT OF LOCAL REALITIES. WE COULD FURNISH MORE OF OUR
IMPRESSIONS THESE REALITIES, IF NECESSARY, TO ASSIST
IMF BEFORE IT SENT MISSION OR ADOPTED FIXED POSITIONS.
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